

Chapter 51A

Options on Butter Futures

51A00. SCOPE OF CHAPTER

This chapter is limited in application to trading in put and call options on the butter futures contract. The procedures for trading, clearing, inspection, delivery and settlement and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

51A01. OPTION CHARACTERISTICS

51A01.A. Contract Months and Trading Hours ¹

Options contracts shall be listed for such contract months and scheduled for trading during such hours as may be determined by the Board of Directors.

51A01.B. Trading Unit

The trading unit shall be an option to buy, in the case of the call, or to sell, in the case of the put, one butter futures contract as specified in Chapter 51.

51A01.C. Minimum Fluctuations

The price of an option shall be quoted in cents per pound. Minimum price fluctuations shall be in multiples of \$.00025 per pound (also known as one tick). A trade may also occur at a price of \$.000125 per pound (\$5.00, also known as one-half tick), whether or not it results in the liquidation of positions for both parties to the trade.

51A01.D. [Reserved]

51A01.E. Exercise Prices ²

The exercise prices shall be stated in terms of cents per pound. For all contract months, exercise prices shall be at intervals of 2 cents; e.g., 70 cents, 72 cents, etc.

At the commencement of option trading in a contract month, the Exchange shall list put and call options in a range of 10 cents above and below the previous day's settlement price of the underlying futures contract.

When a sale, bid, offer, or settlement price in the underlying futures contract occurs at, or passes through an exercise price, the Exchange shall list on the next trading day put and call option contracts at the next higher (or next lower) exercise price within a 10 center range above (or below) the exercise price at which or through which the underlying futures sale, bid, offer, or settlement price occurred.

New options may be listed for trading up to an including the termination of trading.

The Board may modify the provisions governing the establishment of exercise prices as it deems appropriate.

51A01.F. Position Limits

No person shall own or control a combination of options and futures that exceeds:

- 1,000 futures equivalent contracts net on the same side of the market in all months combined;
- 900 futures equivalent contracts net on the same side of the market in any contract month.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for the purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

51A01.G. Accumulation of Positions

The positions of all accounts owned or controlled by a person or persons acting in concert or in which such person or persons have a proprietary or beneficial interest, shall be cumulated. The

¹ Revised December 2001.

² Revised December 2001.

Board may impose position limits for any such accounts as it deems appropriate.

51A01.H. Exemptions

The foregoing position limits shall not apply to commercially appropriate risk reducing option positions defined in accordance with Regulation 1.3(z)(1) of the CFTC and meeting the requirements of Rule 559 and shall not apply to other options positions exempted pursuant to Rule 559.

51A01.I. Termination of Trading

Options trading shall terminate on the first Friday of the delivery month of the underlying futures contract. If that Friday is not a business day, then trading shall terminate on the immediately preceding business day.

51A01.J. Contract Modification

Specifications shall be fixed as of the first day of trading of a contract except that all options must conform to government regulations in force at the time of exercise. If the U.S. government, an agency, or duly constituted body thereof issues an order, ruling, directive, or law inconsistent with these rules, such order, ruling, directive, or law shall be construed to become part of these rules and all open and new options contracts shall be subject to such government orders.

51A02. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7 the following shall apply to the exercise of butter options.

51A02.A. Exercise of Option by Buyer

An option may be exercised by the buyer on any business day the option is traded. Exercise of an option is accomplished by the clearing member representing the buyer presenting an Exercise Notice to the Clearing House by 7:00 p.m. on the day of exercise.

An option that is in the money³ and has not been liquidated or exercised prior to the termination of trading shall, in the absence of contrary instruction delivered to the Clearing House by 7:00 p.m. on the day of expiration by the clearing member representing the option buyer, be exercised automatically.

51A02.B. Assignment

Exercise notices accepted by the Clearing House shall be assigned through a process of random selection to clearing members with open short positions in the same series. A clearing member to which an exercise notice is assigned shall be notified thereof as soon as practicable after such notice is assigned by the Clearing House, but not later than 45 minutes before the opening of Regular Trading Hours in the underlying futures contract on the following business day.

The clearing member assigned an exercise notice shall be assigned a short position in the underlying futures contract if a call is exercised or a long position if a put is exercised. The clearing member representing the option buyer shall be assigned a long position in the underlying futures contract if a call is exercised and a short position if a put is exercised.

All such futures positions shall be assigned at a price equal to the exercise price of the option and shall be marked to market in accordance with Rule 814 on the trading day of acceptance by the Clearing House of the Exercise Notice.

51A03. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

51A04-29. [RESERVED]

³ An option is in the money if the settlement price of the underlying futures contract lies above the exercise price in the case of a call, or lies below the exercise price in the case of a put. In the case of an option in the February bi-monthly cycle, the settlement price shall be the Final Settlement Price as determined in Rule 40103.A.

FLEXIBLE BUTTER OPTIONS⁴**51A30. SCOPE OF FLEXIBLE OPTION RULES**

Unless otherwise noted below, the following flexible option rules supersede the standard option regulations presented in the earlier part of the chapter.

51A31. FLEXIBLE OPTION CHARACTERISTICS**51A31.A. Nature of Flexible Contracts**

Flexible options on Butter futures shall be permitted in puts and calls that do not have the same underlying futures contract, and the same strike price, and the same exercise style, and the same expiration date as the standard listed options that are already available for trading.

Trading in standard options under certain flexible trading procedures shall be permitted prior to the listing of such options. Once and if these options are listed for trading as standard options, they will be traded only as standard options subject to the standard option trading requirements. Upon such listing, all existing open positions established under flexible procedures shall be fully fungible with transactions in the respective standard option series for all purposes under these regulations.

51A31.B. Trading Unit⁵

The minimum size for requesting a quote and/or trading in a flexible option series is 1 contract, where each contract represents an option to buy, in the case of a call, or to sell, in the case of a put, one Butter futures contract as specified in Chapter 51.

Respondents to a request for quote must be willing to trade at least 1 contract.

51A31.C. Minimum Fluctuations

(Refer to Rule 51A01.C.—Minimum Fluctuations)

51A31.D. Underlying Futures Contracts

The underlying futures contract for a flexible option shall be any Butter futures contract that is currently available for trading, as specified in Chapter 51.

51A31.E. Exercise Prices

Exercise prices shall be stated in terms of the Butter futures contract that is deliverable upon exercise of the option and may be at intervals of .25 cents per pound for all levels from 00.25 to 1,000; e.g., 100.25, 100.50.

51A31.F. Position Limits⁶

No person shall own or control a combination of options and futures that exceeds:

1. 1,000 futures equivalent contracts net on the same side of the market in all months combined;
2. 900 futures equivalent contracts net on the same side of the market in any contract month;
3. 150 futures equivalent contracts net on the same side of the market in the expiring contract month as of the close of business on the first business day following the first Friday of the contract month;
4. 50 futures equivalent contracts net on the same side of the market in the expiring contract month during the last 5 days of trading in the contract.

For the purpose of this rule, the futures equivalent of an option contract is 1 times the previous business day's IOM risk factor for the option series. Also for the purposes of this rule, a long call option, a short put option, and a long underlying futures contract are on the same side of the market; similarly, a short call option, a long put option, and a short underlying futures contract are on the same side of the market.

51A31.G. Accumulation of Positions

(Refer to Rule 51A01.G.—Accumulation of Positions)

⁴ Effective June 1998.

⁵ Revised April 1999.

⁶ Revised April 1999.

51A31.H. Exemptions

(Refer to Rule 51A01.H.—Exemptions)

51A31.I. Termination of Trading⁷

Flexible option expiration dates may be specified for any Exchange business day up to and including the business day immediately preceding the last trading day of the underlying futures contract.

A new flexible option series may not be opened on its last day of trading. However, an existing flexible option series may be traded on its last day of trading.

51A31.J. Contract Modification

(Refer to Rule 51A01.J.—Contract Modification)

51A32. EXERCISE

In addition to the applicable procedures and requirements of Chapter 7, the following shall apply to the exercise of flexible options on Butter futures.

51A32..A. Exercise of Flexible Option by Buyer

Flexible options may be specified to have either American-style or European-style exercise.

A flexible option with American-style exercise may be exercised by the buyer on any business day that the option is traded and also on its expiration date. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 P.M. on the day of exercise.

A flexible option with European-style exercise may be exercised by the buyer only on the day that the option expires. To exercise the option, the clearing member representing the buyer shall present an exercise notice to the Clearing House by 7:00 P.M. on the day of exercise.

Any flexible option that is in the money and has not been liquidated or exercised prior to its expiration date shall, in the absence of contrary instructions delivered to the Clearing House by 7:00 P.M. on the day of termination of trading by the clearing member representing the option buyer, be exercised automatically.

51A32.B. Assignment

(Refer to Rule 51A02.B.—Assignment)

51A33. ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES

(Refer to Rule 701. – ACTS OF GOVERNMENT, ACTS OF GOD AND OTHER EMERGENCIES)

51A34. INITIATING A FLEXIBLE OPTION CONTRACT SERIES

For each trading session, the opening of trading in any flexible option series shall occur through a Request For Quote (RFQ). No RFQ's will be accepted prior to ten minutes after the daily scheduled opening time of the underlying futures. No RFQ's will be accepted within thirty minutes of the daily scheduled closing time of the underlying futures.

51A35. RESPONSE TIME INTERVAL

No trades against the first RFQ submitted for a flexible option series on any trading day may occur prior to the end of the Response Time Interval. The Response Time Interval shall be a 5 minute period and will begin immediately upon acceptance of an RFQ by the designated flexible option pit official. The designated flexible option pit official shall signal the end of the Response Time Interval for each RFQ.

51A36. RFQ TRADING INTERVAL

A flexible option series shall be immediately open for trading following the Response Time Interval. Priority for RFQ's is determined by order of submission to the RFQ official, except that all RFQ's submitted before the open shall be treated equally.

⁷ Revised April 1999.

51A37. EXPIRATION OF AN RFQ

Trading in a given flexible option series following an RFQ shall remain open for the remainder of the trading session.

51A38. REPORTING OF FLEXIBLE OPTION TRADES

It shall be the responsibility of the participants in a flexible option trade to report the quantities and prices to the designated flexible option pit official in a timely manner, including any later trades in open flexible contract term series.

(End Chapter 51A)